

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 89-229-C - ORDER NO. 91-532 ✓
JUNE 28, 1991

IN RE: Application of United Telephone)
Company of the Carolinas to Increase) ORDER ON
Certain Rates and Charges for Intra-) PETITION FOR
state Telephone Service in South) RECONSIDERATION
Carolina.)

This matter is before the Public Service Commission of South Carolina (the Commission) by way of a Petition for Rehearing and Reconsideration filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate). The Consumer Advocate seeks rehearing or reconsideration of Order No. 91-362 which granted United Telephone Company of the Carolinas (United or the Company) a portion of its requested increase in rates and charges for intrastate telephone service within South Carolina.¹ The Consumer Advocate contends that the Commission erred in the following five instances: (1) by denying the Commission Staff's (Staff's) proposal to impute 100% of the revenues of DirectoriesAmerica in United's operating revenues; (2) by amortizing the balance in Account 2321, Station Equipment and Wiring, in one year; (3) by failing to reduce United's pro forma

1. The Company sought an increase in rates and charges which would have produced additional gross revenues of \$1,663,877. The Commission granted the Company an increase of \$1,021,768.

payroll expense by \$20,000; (4) by failing to make any findings in regard to United's Employee Income Protection Plan; and (5) by concluding that cost studies were not an appropriate methodology to use to determine a proper rate design. After thorough consideration of the Consumer Advocate's Petition, the record before the Commission, and the applicable law, the Commission hereby grants the Petition in part and denies the Petition in part.

1. DirectoriesAmerica. The Consumer Advocate argues that although it imputed 60% of DirectoriesAmerica's revenues in United's operating revenues, the Commission actually recognized this treatment was inappropriate by notifying United that it would require it to impute 100% of DirectoriesAmerica's revenues in future ratemaking proceedings.² The Consumer Advocate further argues that while the Company argued that 100% of DirectoriesAmerica's revenues³ should not be included in its operating revenues because of the competitive nature of the directory advertising business, the Company presented no quantifiable evidence establishing that competition affects directory publishing.

At the hearing, Company witness Sokol testified that, based on United's contract with DirectoriesAmerica, United proposed to include 60% of DirectoriesAmerica's revenues in its operating

2. DirectoriesAmerica, an affiliate of United, publishes United's directories.

3. The Staff had proposed to include 100% of DirectoriesAmerica's revenue in the operating revenues of the Company.

revenues. Alternatively, Sokol testified that because of the competitive nature of the directory publishing business, the Commission should not regulate that aspect of the telephone business. (TR. Vol. 3, p. 123, line 2 - p. 126, line 13). Apparently, Sokol believed that there should be no imputation of revenues between telephone utilities and their affiliated publishing companies.

This Commission has the discretion to make those adjustments it deems proper and which are based on the substantial evidence in the record. In Order No. 91-362, the Commission considered its treatment of a similar situation in a previous Southern Bell rate case. In the Southern Bell decision the Commission determined that a utility's establishment of a subsidiary directory publishing business should not affect the utility's revenue requirement. Accordingly, since Southern Bell ratepayers had been receiving all of the revenues from Southern Bell's own directory publication, the Commission concluded that 100% of the revenues of the subsidiary should be imputed to Southern Bell's operating revenues. Order No. 85-1, Docket No. 84-308-C (1985).

In the present case, before United became affiliated with DirectoriesAmerica, United's directory operations were performed by an independent publishing company. Under the terms of its agreement with the independent publishing company, 60% of the publishing company's revenues were to be allocated to United and 40% were to be compensation to the publishing company. Accordingly, the Commission concluded that since United's

ratepayers had been receiving 60% of the revenues from the independent publishing company, the ratepayer should likewise have 60% of DirectoriesAmerica's revenues imputed to United's operating revenues.

The Commission was not persuaded that directory operations are subject to intensive competition, as stated by witness Sokol. Instead, the Commission recognized a lack of competition among directory publishing companies because yellow page publications are marketable through their association with white page directories which are required by 26 S.C. Reg. 103-631(1976). Accordingly, in its discretion, the Commission informed United that it would impute 100% of DirectoriesAmerica's revenues in its operating revenues in future ratemaking proceedings. (The Company has not objected to the imputation of 100% of the revenues in future proceedings). The Commission did not err in imputing 60% of DirectoriesAmerica in the present ratemaking case and notifying United that it would be required to include 100% of the revenues in future ratemaking proceedings.

Moreover, the Commission did not adopt Company witness Sokol's testimony concerning the competitive nature of the directory advertising market. Accordingly, assuming the Company should have included some quantification of the effect of competition on directory publishing, the Commission did not err because it did not accept the Company's argument. The Commission denies the Petition for Rehearing or Reconsideration on this issue.

2. Account 2321, Station Equipment and Wiring. The Consumer Advocate contends that the Commission erred by amortizing the unrecovered Balance in Account 2321, Station Equipment and Wiring, over a one year period instead of adopting his proposal to amortize the balance over a three-year period. The Commission concluded that based upon Order No. 81-625, Docket No. 81-168-C (September 1981), of which it took judicial notice (26 S.C. Regs. 103-870(c)(1976)), United's Station Equipment and Wiring Account was required to be fully amortized by October 1991. This treatment complies with the Federal Communication Commission's (FCC's) March 1981 amendments to certain provisions of the Uniform Systems of Accounts for Class A and Class B Telephone Utilities. The Commission's treatment of the Station Equipment and Wiring Account is based on previously recognized Commission and FCC decisions and, therefore, is supported by substantial evidence in the record. The Commission denies the Petition for Rehearing on this issue.

3. Payroll Expenses. The Commission declined to adjust the Company's payroll expenses to reflect the decrease in United's employees.⁴ The Commission found that even though it had less employees, United would still have to absorb the expenses for the performance of those employees' functions by employees of United Intermountain Telephone. (TR. Vol. 1, p. 126, lines 20-22). While not challenging the Commission's decision to decline to adjust the Company's payroll expenses to reflect less employees, the Consumer

4. The Company had ten (10) fewer employees on its payroll as of December 31, 1990, three (3) months after the test year.

Advocate argues the Commission should have reduced United's payroll expense by \$20,000 to reflect the net reduction in expenses in transferring the Company's service center operations to United Intermountain. The Commission agrees and notes that witness Baker admitted United's expenses would be approximately \$20,000 less since it transferred its service center operations to United Intermountain Telephone. (TR. Vol. 1, p. 126, line 3 - p. 127, line 3). Accordingly, the Commission grants the Consumer Advocate's Petition for Reconsideration on this issue. This adjustment reduces the Company's operating expenses by \$20,000 and Net Operating Income by \$11,374. This adjustment results in a .01¢ decrease to One Party Residential rates in Rate Group 1. Additionally, the adjustment results in a .01¢ decrease to One Party Business and a .02¢ decrease to One Party Residential rates in Rate Group 2. The Commission has attached a New Schedule of Rates reflecting these changes.

4. Employee Income Protection Plan. The Consumer Advocate contends that the Commission failed to make any findings concerning United's Employee Income Protection Plan (EIPP). The Consumer Advocate further argues that the Commission should normalize the total of United's EIPP payments over three years.

While the Commission agrees it did not make specific findings of fact concerning the EIPP, the Commission notes that it denied the Consumer Advocate's proposal in regard to the program. Order p. 34. Accordingly, the Commission will make specific findings of fact and address the Consumer Advocate's proposal in regard to

United's EIPP herein.

The Company proposed to amortize its expenses associated with its EIPP over the three year period in which the actual benefits would be paid to its employees who elected to take early retirement. Based on its proposal, United reduced its test year per book operating expenses by \$25,393 to reflect the actual payments of \$110,000 that would be made during the twelve months ended February 1992. (TR. Vol. 2, p. 167, line 14 - p. 168, line 3). Staff adopted United's pro forma adjustment.

Through the testimony of witness Effron, the Consumer Advocate argued that instead of expensing \$110,000, United should be required to amortize the total EIPP payments of \$206,000 over the three-year period in which the EIPP payments are made to the plan employees. The Consumer Advocate suggested this adjustment would reduce United's annual EIPP expense to \$69,000. The Consumer Advocate's proposal reduced United's pro forma test year expenses by \$41,000. (TR. Vol. 2, p. 168, lines 5-25).

Company witness Baker testified that under the Consumer Advocate's scenario, the EIPP expense of \$110,000 two years after this rate hearing would be more than the actual EIPP expense the Company may have to pay in that year. Baker explained, however, that the Consumer Advocate's scenario did not give any consideration that additional employees would join the EIPP and, therefore, reduce the difference in the \$110,000 operating expense and United's actual expense.

The Commission adopts the Company's proposal to adjust its per

book EIPP expense by \$25,393. The Commission concludes United's adjustment is appropriate because its payment of \$110,000 from March 1991 to February 1992 is a known and measurable expense.

Southern Bell Telephone & Telegraph Co. v. Public Service Commission of South Carolina, 270 S.C. 590, 244 S.E.2d 278 (1978).

As with most other operating expenses of a utility, the actual expense may increase and/or decrease during the years between ratemaking proceedings. However, this Commission makes adjustments to the test year period to reflect those changes which are known and measurable at the time of the hearing. Here, the Company's adjustment to reduce its EIPP to the amount it will actually disburse in the payment period following the test year is consistent with the known and measurable ratemaking concept. Id. The Commission denies the Consumer Advocate's Petition for Rehearing on this issue.

5. Cost Studies/Rate Design Issues. The Consumer Advocate contends that in Order No. 91-362, the Commission "found that cost studies were not an appropriate manner by which to determine a proper rate design, other than some unnamed costing methodologies applied by the Company." Petition p.5. The Consumer Advocate also claims that the Commission did not require the Company to justify its proposed charges for competitive services. Finally, the Consumer Advocate contends that because United did not justify its proposed charges, there was no evidence of record upon which to determine the level of contribution from basic local exchange customers.

First, the Commission neither approved nor disapproved of cost studies as a method for determining a proper rate design in Order No. 91-362. Accordingly, the Commission denies the Consumer Advocate's Petition in regard to this argument.

Second, the Commission finds that the Consumer Advocate's argument concerning the Commission's failure to require United to justify its proposed charges for competitive services is without merit. First, at the hearing, Consumer Advocate witness Ileo agreed that the Company's proposed increases in charges for Special and Switched Access services were proper. (TR. Vol. 2, p. 87, lines 3-7). Accordingly, the Commission concludes that the Consumer Advocate does not object to the approved increases for those services.

Second, the Company withdrew its Improved Mobile Telephone Service (IMTS). This withdrawal was supported by cost data. Hearing Exhibit 8. The Commission concludes that its approval of the withdrawal of United's IMTS is clearly supported by the evidence of record and is not the subject of the Consumer Advocate's present objection.

Third, the Commission concludes that the Company's proposal to reduce its zones from four (4) to one (1) is not the subject of the Consumer Advocate's present objection. United's proposal to reduce its number of zones is consistent with the Commission's intent of phasing out zone charges. Moreover, a surcharge for telephone service in a particular zone does not constitute competitive services.

Fourth, the Commission finds that neither United's Directory Listing Services nor its Central Office Features are "competitive"; they do not compete with another company's services because United's customers may only obtain these services from the Company. These service offerings are merely optional. Accordingly, the Commission concludes the Consumer Advocate's argument does not refer to these services.

The only competitive service offered by United and considered by Order No. 91-362 is the Advanced Business Connections Service (ABC). In Order No. 91-362, the Commission recognized that a Private Branch Exchange System (PBX) subscriber receives the same service as an ABC subscriber but for a smaller charge. Accordingly, the Commission determined it was appropriate to adjust the ABC charges to rates similar to those of a PBX service so that United could fairly compete with a PBX service. Moreover, the Commission concludes that earnings produced from subscribers of United's competitive ABC service will contribute to the reduction of basic rates. Therefore, the Commission finds no error in the approved ABC rate changes.

Fifth, the Company did provide evidence from which the Commission could determine the level of contribution required from basic local exchange ratepayers under a residual pricing methodology. Hearing Exhibit 8 contains United's Embedded Direct Cost Analysis for all of its regulated products and services. This analysis indicates that basic local exchange customers are receiving a substantial subsidy from other services priced above

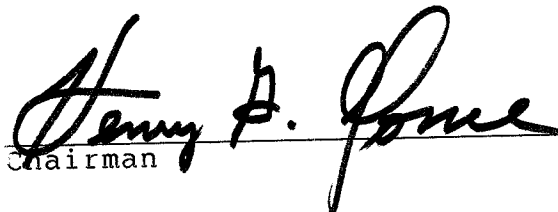
their actual direct cost. Accordingly, the Commission denies the Petition for Rehearing on this issue.

CONCLUSION

Based on the above discussion of the evidence in the record and the arguments of the parties, the Commission grants the Consumer Advocate's Petition for Rehearing in regard to United's payroll expenses and reduces the payroll expenses by \$20,000. The Commission denies all other issues raised by the Consumer Advocate in his Petition for Rehearing or Reconsideration.

IT IS SO ORDERED.

BY ORDER OF THE COMMISSION:

VICE 
Chairman

ATTEST:


Executive Director

(SEAL)

DOCKET NO. 89-229-C - ORDER NO. 91-532
JUNE 28, 1991
ATTACHMENT

UNITED TELEPHONE COMPANY OF THE CAROLINAS
REVISED APPROVED BASIC EXCHANGE RATES

RATE GROUP 1

<u>BUSINESS</u>	<u>APPROVED RATE</u>
ONE-PARTY	\$27.86
TWO-PARTY	\$22.68
FOUR-PARTY	\$18.10
TRUNK	\$48.98
COCOT	\$55.79
ONE-PARTY LMS	\$16.73
TRUNK LMS	\$29.37
COCOT LMS	\$22.31
<u>RESIDENCE</u>	
ONE-PARTY	\$12.99
TWO-PARTY	\$11.38
FOUR-PARTY	\$ 9.09
ONE-PARTY LMS	\$ 6.50

RATE GROUP 2

<u>BUSINESS</u>	<u>APPROVED RATE</u>
ONE-PARTY	\$31.67
TWO-PARTY	\$25.77
FOUR-PARTY	\$20.57
TRUNK	\$55.59
COCOT	\$63.37
ONE-PARTY LMS	\$19.02
TRUNK LMS	\$33.37
COCOT LMS	\$25.34
<u>RESIDENCE</u>	
ONE-PARTY	\$14.77
TWO-PARTY	\$12.92
FOUR-PARTY	\$10.32
ONE-PARTY LMS	\$ 7.40